PSC Perspective: The Air Force Housing Privatization Process

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Outline:

- Progress: DoD Housing Privatization
- Critique: Process Experiences – What's Working Well and What Needs Improvement
  - During concept development/approval
  - During industry outreach
  - During proposal evaluations
  - During ASO approvals
  - During closing and transition
- Role of PSCs Resulting from Lessons Learned
- Panel Discussion and Q&A's: AF has an established process…how can it work better?

Progress: DoD Housing Privatization

Service Branch	So Far		Pending Solicitation		Total	
	Awarded Projects	Units	Pending Projects	Units	Total Projects	Units
Army	9	33,544	19	34,998	28	68,542
Navy/Marine Corps	11	16,052	4	16,619	15	32,671
Air Force	7	5,486	19	23,139	26	28,625
Total	27	55,082	42	74,756	69	129,838
% Total	39%	42%	61%	58%	NA	NA

Source: DUSD (I&E) Military Housing Privatization website as of 1/2004

Process Experiences – Concept Development/Approvals

- <u>What's Working Well</u>:
  - Housing flights and base PMs have come through in gathering info – a monumental effort in some cases
  - Pursuing whole base transactions vs. partial base, as economies of scale are generated
  - Time and cost savings occur by having PSC/AF concurrently complete concept development, RFP and preliminary scoring report
  - Consistent financial assumptions in AF pro forma model ensures consistent development and analysis of financial feasibility and ensures parity across transactions

Process Experiences – Concept Development/Approvals (cont)

- <u>What's Working Well (cont)</u>:
  - Realization spreading that project revenue (enlisted BAH) is insufficient to replace all housing within the first couple years – it's a matter of time and income stream
  - Offering excess AF land for private development in the RFP has attracted developers to compete in prime locations and has lowered the scored cost
  - AF working to eliminate RFP review for each project if generic RFP is used; "brief by exception"
  - AF working to secure OSD Concept approval at lower level if no major deviations from "standard process"

Process Experiences – Concept Development/Approvals (cont)

- <u>What Needs Improvement</u>:
  - Little AF analysis takes place to see if other available MHPI authorities and business approaches should be used (i.e. government equity vs. debt, LLC/LP membership vs. a Management Committee role in future decisions)
  - Requiring developers to bring off-base sites in prime locations to meet RFP requirements has discouraged developers from competing
  - “Generic” RFP keeps changing, so offerors/AF reviewers are hampered in their efforts to “standardize” their submissions/reviews

Process Experiences – Concept Development/Approvals (cont)

- <u>What Needs Improvement (cont)</u>:
  - PSCs work under lump sum budgets, so it is important to resolve installation issues quickly (i.e. what housing will be included in the project, what will be conveyed, etc.)
  - Bases need to allow for developer creativity in design/build to market standards and provide less prescriptive direction when drafting RFP requirements

Process Experiences – Industry Outreach

- What's Working Well:
  - Time and cost savings result when using the new "webcast" vs. on-location industry forums (however, these were a good opportunity for industry to meet each other and key government procurement personnel)
  - PSC websites have been effective outreach tools; consistency of information is strong
  - By now grouping bases in a single deal, AF can maximize leverage, obtain efficiencies and economies of scale in solicitation and finance, and may attract larger, "deep pocket" developers

Process Experiences – Industry Outreach (cont)

- What's Working Well (cont):
  - AF will now attract greater developer interest by having the RFP advertise available government funding
  - Efforts by all (Secretariat, Air Staff, MAJCOMs, installations and PSCs) have begun to attract new bidders and lenders

Process Experiences – Industry Outreach (cont)

- What Needs Improvement:
  - All but the first of the 9 AF awards have gone to the same 2 offerors and their partners
  - No “Top 50” builders have been awarded AF projects
  - Need to resolve security concerns so offerors get access to key site-related documents
  - No AF RFP provisions encouraging small builder/business participation has led to some criticism by NAHB

Process Experiences – Proposal Evaluations

- <u>What's Working Well</u>:
  - Allowing sole source opportunities for existing developers to undertake subsequent transaction phases
  - AFCEE has quickly reviewed/approved issuing ENs so schedule has not been impaired
  - Offeror discussions now encouraged early and often to secure "best deal"
  - SO can now use windfall income to fund construction

Process Experiences – Proposal Evaluations (cont)

- <u>What's Working Well (cont)</u>:
  - SO can now draw government funding when separate housing phases are completed
  - AF may modify the Step 2 process to allow "exclusive negotiations" in order to get "the best deal" for the AF

Process Experiences – Proposal Evaluations (cont)

- <u>What Needs Improvement</u>:
  - Maintain a list of pre-qualified developers instead of using an RFQ process for each solicitation
  - From one project to the next, PSCs have seen good and not-so-good proposals from the same Offeror
  - Increased focus on schedule has potential of reducing AF's ability to get best deal
  - Excessive review time spent checking for RFP compliance could better be spent negotiating the "best deal" with top offeror(s); should have all offerors sign statement agreeing to meet RFP requirements
  - AF working to add an oral presentation in generic RFP

Process Experiences – Proposal Evaluations (cont)

- What Needs Improvement (cont):
  - ENs are not negotiations
  - Obtain uniform guidance from COs re: (1) what types of discussions with offerors must vs. may take place; (2) when debriefings can take place and what ASO information is provided to unsuccessful offerors
  - Insert the negotiation process into selection process (prior to approval of ASO)

Process Experiences – ASO Approvals

- What's Working Well:
  - AF secured OSD agreement to use "tabletop" vs. full award briefing for projects if no major change in scope or deviation from standard process
  - Standard briefing templates
  - More flexible ESG schedule

Process Experiences – ASO Approvals (cont)

- <u>What Needs Improvement</u>:
  - AF and OSD need better communication/coordination to ensure that AF's accelerated schedule does not hit a brick wall at the OSD review stage
  - Unresolved conflicts with OMB and OSD Comptroller regarding government financial analysis (scoring)
  - Have Congressional authority for a 14-day electronic notification to transfer funds, but the OSD Comptroller notification system is not in place

Process Experiences – Closing & Transition

- <u>What's Working Well</u>:
  - Can productively use time during Congressional Notification to increase likelihood that project closing will occur as scheduled
  - Supporting the AF Legal Team with outside legal counsel has benefited the AF closing process; the AF will not provide legal counsel to PSCs

Process Experiences – Closing & Transition (cont)

- What Needs Improvement:
  - Base transition activities before closing, like tenant education, are only now being implemented; Base representatives in charge of administering the final deal need to be up to speed ASAP
  - Delegation of decision authority from SECAF should take place to allow others to make desired business deal modifications during design reviews and other SO meetings after closing; process driven compared to negotiation driven

Role of PSC Resulting from Lessons Learned

- PSCs being relied upon to do “heavy lifting” in this time-consuming process, resulting in better allocation of government resources
- PSCs are now encouraged to frequently interact so lessons learned can be circulated and improvements can be implemented quickly
- PSCs now can assist developers in past dealings to save Step 1 time and cost by not requiring resubmittal of past performance information
- PSCs now given more latitude than before to apply “best commercial practices”, so long as do not perform “inherently governmental functions”

Role of PSC Resulting from Lessons Learned (cont)

- Including PSCs during negotiations has resulted to date in the Government saving tens of millions of dollars of planned investments in deals
- PSCs will soon be involved in the “generic” RFP development

Panel Discussion and Q&A’s

- ***AF has an established process… how can it work better?***